ISDA® Safe, Efficient Markets

Important Notice re: Application of Margin Rules to Phase 1 Groups

Dear Market Participant:

The following is an advisory note we are providing to highlight the impact of the US rules on margin for uncleared swaps (the "Margin Rules") on funds that are consolidated on the financial statements of large financial groups.

We remind all ISDA members that, under the Margin Rules, a fund will be an "affiliate" of a company if they are consolidated on the financial statements prepared by that company, the fund or a third company, in accordance with GAAP, IFRS or similar accounting standards. (There may also be other circumstances in which a fund is an affiliate of another company, which are not addressed in this note.) If a fund is an affiliate of a registered swap dealer that is subject to the requirements of the Margin Rules from September 1, 2016 (a "Phase 1 Entity"), then any requirements that would apply to that fund (or its counterparties) under the Margin Rules will also apply from September 1, 2016 when that fund enters into transactions with a Phase 1 Entity. In practice that may mean that in some cases funds will be required to comply with the initial margin and variation margin requirements of the Margin Rules from September 1, even if the swap portfolio of the fund, considered in isolation from its affiliates, is well below the USD 3 trillion phase-in amount for September 2016.

ISDA recommends that funds or their managers identify any funds that are consolidated on the financial statements of large financial groups to determine whether those funds may need to comply with the Margin Rules from September 1, 2016, and to identify any such funds to their Phase 1 Entity counterparties as soon as possible.

Please contact the ISDA Legal Department (ISDALegal@isda.org) if you have any questions.